Consumption Taxes Would Reach the Millions Who Escape Income Levies

Problem of Financial Statesmanship Is to Frame the Most Equitable System for Effectively Utilizing the Resources of the Country for War Purposes

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THE purpose of war finance is to place the control of the resources of the nation in the hands of the government. This is accomplished through loans and taxes, which supply the government with purchasing power and enable it to direct the labor and capital of the country to the production of the goods and services which the government needs for carrying on the war. The effectiveness of a given quantity of purchasing power, measured in terms of money, depends, however, on the level of wages and prices. If the purchasing power acquired by the government involves no, or little, curtailment of the purchasing power in the hands of its citizens, the government and individuals will compete for the control of the productive forces of the country, money wages and prices will rise, and the power of the government to command the resources which it needs will be curtailed. If the financial system is to do its work effectively, it must not only supply the government with purchasing power, but must curtail the purchasing power left in the hands of its citizens.

The method adopted for supplying the government with revenue, therefore, becomes a matter of great importance. Of two methods which yield equal revenues, that is to be preferred which involves the greater curtailment of private expenditure for goods and services which are not essential to the maintenance of the efficiency of the working force of the country. Upon this consideration rests the argument in support of the proposition that revenue should be raised by taxation rather than by borrowing, since the former involves a greater curtailment of private expenditure than does the latter. On the other hand, the burden of taxes weighs more heavily than the burden of loans, and care must be taken that this burden does not become so great as to deaden the productive energy of the people. This consideration involves a careful examination of the effect of different forms of taxation, since taxes differ in the extent of the deadening influence which they exercise, and demands that the burden be so distributed that no important class of taxpayers shall feel that they are being made to bear distinctly more than their fair share while other classes are allowed to escape.

Income Taxation Yields Most Revenue

The attitude of the taxpayers is an important factor in determining the repressive influence of the burden of taxation. If the distribution is felt to be equitable, a far heavier burden can be imposed without serious repressive effects than if it is felt to be inequitable. The forms of taxes best calculated to yield large revenues and at the same time exercise a restraining influence on private expenditure are direct taxes on income or property and taxes on consumption. In favor of direct taxes on income or capital it may be urged not only that they can be made to yield a far larger revenue than can consumption taxes, but that they permit a distribution of the burden in accordance with ability to bear it, and afford a means of appropriating for war purposes the income which the war itself has created. On the other hand, such taxes reach a very small percentage of the total population. They touch only to a slight extent the great mass of wage earners and farmers whose earnings as a whole constitute the largest share in the national income, and whose earning power is frequently increased by war conditions; pushed beyond a certain point, they are apt to weaken the energy of those upon whom we depend for the organization and development of our economic resources and to dry up the sources of saving essential for the maintenance and extension of capital equipment. They exercise a restraining influence on private expenditure, but this influence is not necessarily directed to the particular commodities and services the consumption of which it is most desirable to discourage.

While it is difficult to apportion the burden of consumption taxes in accordance with the principle of ability, they furnish the cheapest and most effective means for reaching the great mass of the population, as well as of discouraging the consumption of particular commodities and services, and, if confined to non-essentials, cannot be regarded, even when rates are high, as imposing an undue burden on the classes on which they rest. They constitute, in fact, an indispensable element in any system of taxation which seeks to utilize the resources of the country to the full, and to create the feeling that the burden of taxation is equitably distributed among all classes of the population, upon which the successful administration of any system imposing extremely heavy burdens must largely depend.

Reliance Upon Loans Easiest Procedure

The framing of a revenue system which, giving the proper weight to these more or less conflicting considerations, shall prove most effective in utilizing the resources of the country for carrying on the war is the problem of financial statesmanship.

Reliance upon loans for meeting war expenditures other than interest on the loans created seems the easiest procedure, involving for the moment the least burden, and in general this is the plan which has been followed by the warring nations. Two countries only, the United Kingdom and the United States, have from the outset undertaken to obtain by taxation revenues sufficient to meet not only the interest on the new debt, but a substantial portion of the actual war expenditure. In view of the enormous expenditure entailed by the war, the results achieved by both countries are notable.

In the financial year 1917-'18 revenue other than from loans sufficed to cover 34 per cent of the total expenditures (other than for advances to Allies) in the United Kingdom and 50 per cent in the United States; the increase in such revenue over the last peace year (1914 and 1917 respectively) sufficed to meet 27 per cent of the increase in expenditure (including interest on the war debt) in the United Kingdom and 43 per cent in the United States, or to provide for the interest on the war debt and in addition 20 per cent of the increase in expenditure in the United Kingdom and 42 per cent in the United States.

In both countries this has been accomplished mainly through the increase of income taxes and the imposition of taxes on excess profits due to the war, rather than by the increase of revenue from consumption taxes. Between 1914 and 1918 the revenue from such taxes in the United Kingdom increased from $236,000,000 to $2,293,000,000, while revenue from consumption taxes increased from $375,000 to $650,000. Exemption from the income tax has been reduced from $800 to $650 and the rates greatly increased. On incomes of $1,000 the rates are 4½ per cent on earned and 6 per cent on unearned incomes. They increase rapidly reaching the maximum, approximately 42 per cent, at incomes of about $125,000.

Consumption Taxes To Be Increased

In the budget for 1918-'19 it is proposed to increase these rates by from 20 per cent to 25 per cent, bringing the maximum rate up to about 52 per cent. Taxes on war profits are levied at the rate of 80 per cent. The failure to obtain a greater increase of revenue from consumption taxes was not due to failure to increase the rates of such taxes, but to the fact that the rates were in many instances high before the war and to the interruption of commerce, and consequent curtailment of consumption, particularly of liquors, which constitute the most important source of such taxes. In the budget for 1918-'19 it is proposed not only to again greatly increase the rates of existing consumption taxes, but to extend their range by adopting a scheme of luxury taxes similar to those established in France by the act of December, 1917. The estimated income under the new rates (exclusive of luxury taxes) is $793,000,000.

In the United States the European war involves an increase of expenditure even before our declaration of war. This increase, as in the case of the United Kingdom, was met mainly by an increase of direct taxation (in the form of income taxes, taxes on the profits of the makers of munitions, and taxes on inheritances) which grew from $60,700,000 in 1914 to $393,400,000 in 1917, while consumption taxes (customs and internal) increased only from $600,000,000 to $630,000,000. The act of October 3, 1917, made substantial additions to internal consumption taxes, and as a net result of a decline in receipts from customs duties and an increase of internal taxes, consumption taxes in the year ended June 30 apparently produced about $1,000,000,000. The main burden, however, was again borne by direct taxes, which through the increase of income taxes and the addition of a general excess profits tax grew to over $2,800,000,000.

Will Double Current Year Expenditures

We are told that our expenditure for the current year will be double that of the year just closed. If we are to maintain the financial policy already established we must double our taxes. There is no doubt that large additional revenue can be derived from the income tax and the excess profits tax. The rates of the latter are still well under the English rate of 80 per cent. While our income taxes on the largest incomes exceed the English rates, on the smaller incomes they are much below the latter; on incomes of $100,000, 16.2 per cent, as compared with 37.6 per cent; on incomes of $50,000, 10.2 per cent, as compared with 32.7 per cent; on incomes of $20,000, 5.9 per cent, as compared with 27 per cent; on incomes of $10,000, 3.6 per cent, as compared with 18.3 per cent on earned and 22.5 per cent on unearned incomes, and on incomes of $5,000, 1.4 per cent, as compared with 12.5 per cent and 17.5 per cent. It is evident that a substantial increase of income tax revenue can be obtained from the increase in the rates on incomes below $100,000.

To attempt to raise from excess profits and income taxes anything like the whole of the increased revenue needed will, however, push the use of these sources to, if not beyond, the danger limit. It seems clear that the time has come when in order to preserve a well balanced tax system which will utilize the resources of the country to the full and preserve the sense of an equitable distribution of the tax burden, so essential to the smooth working of any system, we must plan for a large extension of consumption taxes which will reach the great mass of farmers and wage earners into whose hands the greater portion of the national income goes, who apparently during the present year have fully shared in whatever seeming financial gains the war has brought, and who cannot be effectively reached through income and excess profits taxes.

Luxury Taxation A New Feature

According to newspaper reports the Treasury and Congress contemplate the adoption of taxes similar to the French luxury taxes, the addition of new sources of consumption taxes and considerable increases in the rates of the consumption taxes already imposed. There has, however, been no indication that they intend to use some of these sources to the full or to make use of other productive and legitimate sources of revenue which have hitherto been neglected.

The suggested rates on liquors, $6 a barrel of thirty-one gallons on fermented liquors and $6.40 a gallon on distilled liquors, as against the present rates of $3 a barrel and $3.20 a gallon, are perhaps as high as it is wise to go at present, although the English budget of 1918-'19 proposes $12 a barrel of thirty-six gallons on fermented liquors and $7.20 a gallon on distilled liquors.

The present rate on manufactured tobacco is 13 cents a pound; on cigars from $4 per 1,000 (4-10 cent per cigar) on cigars retailing at from 4 cents to 7 cents, to $10 per 1,000 (1 cent per cigar) on cigars retailing at over 20 cents; on cigarettes, $2.05 per 1,000. These rates are extremely low. The English rate on manufactured tobacco is $1.95 per pound, and in the budget of 1918-'19, it is proposed to increase it to $2.48. The English rates on cigars and cigarettes are also levied by the pound and amount to $2.94 on the former and $2.38 on the latter, with proposed increases to $3.69 and $3.03, respectively. It is difficult to estimate the equivalent on a pound basis of our rate on cigars, but it is safe to say that it is under rather than over 50 cents. On cigarettes it is about 70 cents. There seems to be no reason why the rate on manufactured tobacco should not be increased to 75 cents, and the rates on cigars and cigarettes quadrupled instead of doubled, as is suggested, according to newspaper reports. This would mean 1.6 cents per cigar retailing at from 4 cents to 7 cents to 4 cents per cigar retailing at over 20 cents and 16 cents per package of 20 cigarettes. Such rates would either bring in $100,000,000 more revenue than the proposed rates, or would appreciably curtail consumption, either of which results is to be desired. Such rates on cigars would not be excessive, judged by our own practice during the Civil War. Under the act of June 30, 1864, the tax on cigars ranged from $8 to $45 per 1,000.

Sugar Rates Might Well Be Tripled

Under the tariff act of 1913 the base rate on sugar was 95-100 cent on sugar testing below 75 degrees. The rate increased with the fineness of the sugar, the maximum being 1.9 cents on refined sugar. The act of 1913 reduced the base rate to 71-100 cent, increasing to 1.334 cents on sugar testing between 98 degrees and 99 degrees and 1.36 on sugar testing between 99 degrees and 100 degrees. In all cases there is a deduction of 20 per cent on sugars from Cuba, which supplies the bulk of our imports. The rate actually collected on sugar of the grades imported into the United States is about 1 cent per pound. These rates might well be tripled. The rate actually collected would then be about 3 cents per pound, equivalent to a nominal rate (without allowance for the Cuban deduction) of approximately 4 cents per pound. The English rate on sugar testing over 98 degrees is 3 cents per pound, and it is proposed in the budget for 1918-'19 to increase it to 5.7 cents. As it would not be the intention to make the additional duty protective, an excise tax of approximately 2 cents a pound should be imposed on sugar produced in the United States and imported from its colonial possessions. If, as is probable under existing conditions, the increase of the tax did not diminish the consumption of sugar, it would yield about $150,000,000 additional revenue.

Other entirely legitimate objects of consumption taxes, recognized as such by practically all nations even in times of peace, are tea, cocoa and coffee. Taxes of 16 cents, 8 cents and 7 cents a pound on these articles, respectively, would apparently yield a revenue of nearly $100,000,000. The corresponding English rates are 24 cents, 9 cents and 9 cents.

Another product which suggests itself as possibly a legitimate object of taxation is silk. It is without question largely a luxury, is widely used, and curtailment of private consumption during the war would be desirable. The raw material is wholly imported. The domestic manufactured product constitutes probably over 90 per cent of the total consumed. The small quantity of imported manufactured products pays duties ranging from 45 to 60 per cent, but the excess of the domestic over the foreign prices of the goods chiefly produced in this country is considerably less. During the first nine months of the current year raw silk (average value $5.23 per pound) was imported at the rate of 35,000,000 pounds per annum, and silk waste (average value 84 cents per pound) at the rate of 8,000,000 pounds per annum. A duty of $2 a pound on raw silk and 80 cents per pound on waste might possibly be expected to yield at least $50,000,000. Such a tax would, of course, necessitate an increase of the compensating duties on manufactured goods.

Tax on Gasolene Highly Desirable

Another important source of revenue, including among those recommended by the Treasury, is gasolene, particularly gasolene used for pleasure cars. A tax on gasolene used for this purpose is highly desirable for its repressive effect as well as for the revenue it might yield. One or other, or possibly both effects, might be increased if the tax could be made progressive with the increase in the amount used. Provided dealers are licensed and consumers are required to purchase on the card system it is believed there would be no insurmountable administrative difficulty in establishing such a tax, at the same time making proper allowances by way of exemption for gasolene used for commercial cars and cars used in connection with professional work.

While taxes on income, excess profits and consumption taxes must furnish the bulk of the revenue, there are other forms of taxes already in use, such as documentary stamp duties and licenses on a selected list of occupations, from which some revenue may be derived. For some unexplained reason, the tax on checks, used both in the Civil and the Spanish wars, and regularly employed in England in time of peace, has not been included in the documentary stamp duties. It should certainly be added in the new law, and might well be graduated; say, 2 cents on checks under $25, 5 cents on checks from $25 to $100, 15 cents on checks from $100 to $1,000 and 50 cents on checks of $1,000 or over.

It would seem from what has been said that, in addition to the taxes which Congress is said to be considering, there are available taxes which would yield $400,000,000 or more of additional revenue, or would exercise a repressive effect on forms of consumption which it is desirable to discourage, and would impose no undue burden upon any class in the community, but would rather contribute to a more equitable distribution of the burden of taxation. The rates of consumption taxes would still be well below what it has been found practicable to impose in England, which has been chosen as the basis of comparison, for the reason that it is the country which during the four years of war has been most successful in making taxes contribute to actual war expenditure.

There will remain in reserve the possibility of a general tax on sales. There are strong objections in principle to such a tax, but there is no doubt that it would yield a very large revenue. A tax, in general about 5 per cent on manufacturers' sales, was the most productive of the internal revenue taxes during the Civil War, yielding $128,500,000 out of a total of $311,000,000 in 1866. A tax of even 1 per cent on all sales to-day might well run into the billions.

Cotton Reaches New High Price On Bad Crop News

Spectacular Rise Carries New Contracts Above Level of Last May

Restraining market factors were ineffective yesterday in the New York Cotton Exchange and prices spurted up to new high records for the season. In the brief session advances amounting to more than 1 cent a pound were made and October contracts sold higher than the maximum price reached in the spectacular upward movement which culminated in April. The general rise in active months reached 107 to 118 points above Friday's closing figures, and in the case of near months soared 10 cents a pound higher than the low level touched on the break of last May.

A further sharp scaling down of crop estimates and the continuation of the drouth in the Southwest were the most important outside causes of the upward swing. Moreover, Liverpool buying, probably to cover the short end of straddles, and the failure of hedge selling to develop allowed the prices to go up without challenge.

The market opened irregularly, at an advance of 5 to 57 points. Scattered Southern selling, as well as realizing, was readily absorbed and the highest prices of the day were attained in the late trading. Although one of the New Orleans map readers predicted a change in Southwestern weather conditions over Sunday, local forecasters found little to sustain that opinion and the official prediction was dry, clear weather in Texas and partly cloudy elsewhere west of the river.

Crop complaints from Eastern belt sections attracted much attention around the ring, as the relatively favorable outlook east of the river has recently encouraged some selling in spite of deterioration in the West.

The local market for spot cotton was steady and 120 pointss higher, at 35.70 for middling upland; sales nil.

The following prices were quoted on the New York Cotton Exchange:

	Yes'day's close.	Previous close.	Year ago.
Cash	35.70	34.50	25.65
Contract:			
August	32.70	31.53	25.45
October	32.48	31.53	24.63
December	32.02	30.95	24.40
January	31.95	30.82	24.40
March	31.90	30.74	24.55

New Danish Typewriter

A Danish corporation for the manufacture of typewriters, recently organized at Copenhagen, has produced its first typewriters, and a consular report states that the machine is much simpler in construction than those of American make. The factory's present equipment will permit an output of from 100 to 150 typewriters a month. No American typewriters are now reaching Denmark.

Leading English Banks

Recent amalgamations, which have received British Treasury approval, have made the following institutions the leading English banks: London Joint City and Midland, with deposits amounting to $1,459,950,000; Lloyd's, with $1,430,751,000; London County, Westminster and Parr's, with $1,070,300,000; Barclay's, with $1,031,698,000, and National Provincial and Union, with $875,970,000.

Victory Bonds Advanced to Par To Check Demand

Strength of Canada's War Loans Reflects Success of Stabilization Plan

(Special Correspondence of The Tribune)

TORONTO, Aug. 16.—The selling price of Canadian Victory bonds has been advanced once more. The Victory Loan Committee has fixed the price at par. This is an advance of one-half point. Not many months ago 98¾ was the price at which the bonds sold. The demand since that time has continued so strong that the committee deemed it advisable to increase the rate. It was thought that the first increase would have the effect of checking demand for the issue, but, as in the case of all rising markets, investors appeared more eager for the bonds at the higher price, with the result that the committee decided to make the second increase. This became effective on August 12. This makes the Victory Loan 1¾ points above the original price for the bonds.

The Victory Loan Committee has also announced that hereafter the committee will pay 99 and interest for all offerings of moderate size. This is an advance of ¾ on the former buying price.

Bonds Not Listed

It will be recalled that when the Victory Loan was launched last fall the Finance Minister decided not to list the Victory bonds on Canadian stock exchanges. He feared that on account of the size of the flotation heavy liquidation would follow, which would depreciate the price. The Victory Loan Committee was organized, with headquarters in Toronto, through which all purchases and sales were handled. The bond houses and stock brokers coöperated with the committee by concentrating their efforts to find new buyers for the Victory bonds. Because of the excellent security behind the bonds the high yield, which ranges from 5.61 to 5.86 per cent, according to maturity, and the income tax exemption privilege, buyers were readily found. The result was that the influx of buying orders was in excess of offerings most of the time. The success of the Victory Loan demonstrates the value of the stabilization scheme.

The success attending the last Victory Loan augurs well for the impending war loan. The committee which assisted the Finance Minister last fall is at work again preparing details in the way of organization. The best financial heads in the country are being called upon to give their time in order to make the new flotation a success.

Want Loans Taxed

Some financial interests in Canada have agitated to have the next Victory Loan subject to the prevailing income taxes. There is no doubt, however, that this one, like former loans, will carry the exemption privilege. A member of the Victory Loan Committee assured the writer that when the next Victory Loan is floated it will not be listed on the stock exchanges, but will be under the control of the Victory Loan Committee.

Allied Power Of Endurance Is Unlimited

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bearing. But any appreciable exhaustion of our resources in plant and equipment is improbable and, in the main, impossible.

In point, then, of their aggregate resources in wealth as distinguished from their financial resources the endurance of the Entente nations has suffered no impairment and can suffer none. Even with regard to shipping this statement holds in substantial truth. As a question of industrial capacity and of possible economies in consumption America has the ability to carry for indefinite centuries war burdens far greater than those that we are at present carrying. With America as one among the Entente nations the resources of the Entente are still unimpaired and foretell no impairment. Under right methods, therefore, there can arrive no time limit on their military activities. As a practical question endurance for them is a matter of financial endurance. It is only on the side of finance that there is serious danger of serious blundering. But because, with America in the war, there is no America left in reserve it is especially imperative that we do not waste our endurance in unjust burdens or in cheap and improvident finance.

Russia's Experience Should Be a Warning

Russia should afford an example —extreme, no doubt, but most illuminating—of the dangers of financing war by methods of currency inflation. There was—there still is—no difficulty with Russia's resources, her margin of available surplus product to maintain war—though she probably attempted to make her armies over-large for her powers of maintenance. But once her money was discredited, her medium of exchanges and of payment, all her resources became unavailable—and they remain so. For her to have borrowed through bonds marketed by bank inflations, had this been possible in Russia, would have somewhat extended her period of endurance. But the limits are none the less inexorable. No financial policy can meet the endurance test that commits the blunder of piling up indebtedness or the blunder of pyramiding prices, or commits both blunders at once in the guise of bonds floated through bank inflations.

Nor, in fact, is there any borrowing method that promises the utmost possible civil contribution to the burdens of war. Patriotic lending or low-interest lending or any lending at a rate of interest, no matter how high, that still leaves the option not to lend must fall short of transferring to the government all that the citizen can get along without.

The sole merit of inflation borrowing, whether through banks or by paper money, is that no one in particular that can refuse is disposed to refuse. In this aspect borrowing works like taxes. But inevitably—if it gets the supplies—it carries the same volume of burden with it, and it piles up the bonds, and it inflates the prices—to the extent that the banks come in, and so make it possible to float the bonds, and it distributes the burdens unfairly both between men of the existing generation and between men of coming generations, and if it is persisted in it makes collapse inevitable at some more or less remote limit of credit possibility.

More than this—and perhaps worse—it obscures the inexorable limits that are set to the total of burden that may be carried. There is, to be sure, no end to the number of dollars that it may be possible to borrow by inflation methods, excepting the possible point at which no one will consent to accept them. But there is always a limit to the labor and the supplies that can be diverted to war purposes.

Inflation borrowing has the vice of seeming to remove this limit—to invite the assumption of impossible burdens—ten million soldiers, for example—and thus contains the menace of economic disaster.

Somewhere Is a Breaking Point

But, even so, it portends not the exhaustion of the resources of the society in point of wealth, but only the exhaustion of credit or the inadequacy of the current income to the undertakings assumed. It is in this aspect that the issues of war endurance rest with wise and provident war finance. Bonds marketed through methods of price inflation pile up with enormous rapidity, and must somewhere reach their limit in the breaking down of the currency system that they have abused.

That there is no immediate menace of this leaves it still true that, in a war where endurance may decide the victory and in which America must furnish the endurance, our present ways of war finance are ways of plain improvidence. It is for us—as it was for Russia—to rely on production and self-denial, and not on credit jugglery to support the war. Our sole danger is one of financial blundering; for such is the nature of our national endurance that it has no limits but those of folly.

Farm Loans Total Over $117,000,000

Up to August Federal Government Had Aided 51,000 Agriculturists

WASHINGTON, Aug. 17.—More than 51,000 farmers have obtained loans averaging $2,200 each through the Federal farm loan system during its fifteen months of operation, and the aggregate of these loans actually closed up to August was $117,249,000. It was shown to-day by a Federal Farm Loan Board announcement that in July 3,588 farmers secured loans totalling $7,853,000.

Only a little more than half of the loans sought have actually been closed. Since the inauguration of the Federal system 98,628 applications for $242,724,000 loans have been received, and 83,282 for a total of $173,550,000 have been approved. Spokane, St. Paul, Omaha and Wichita Federal land banks did the most business. By districts the total number of farmers negotiating loans and the totals to August 1 were reported as follows:

	Loans.	Amounts.
Spokane	7,761	$18,206,000
St. Paul	7,583	16,884,000
Omaha	3,355	13,922,000
Wichita	6,499	12,911,000
Houston	4,129	10,583,000
New Orleans	6,751	8,350,000
St. Louis	4,117	7,810,000
Louisville	3,052	7,386,000
Berkeley	2,375	7,182,000
Columbia, S. C.	2,853	5,318,000
Springfield, Mass.	1,613	4,391,000
Baltimore	1,756	4,299,000

Coal Deposits in Greece

The discovery of large deposits of lignite coal of superior quality a few miles north of Ekaterina and across the head of the Gulf of Saloniki, from the city of Salonica, may be of great value in the industrial development of Greece. That country has had to import fuel for manufacturing purposes, as lignite mined on the island of Euboea was of inferior quality. As to the new deposits, engineers have traced so far a mass approximating 700,000 tons in a small area of the coal territory. Three veins, each varying from twelve to eighteen inches in thickness, have been uncovered.

Denmark Resorts to Peat

Denmark has been long dependent upon importation of coal and oil for fuel supply, but since the war has resorted to peat beds, its only natural supply. As peat has been found of value both for industrial use and household heating, its use as fuel will probably be continued after the war.

Educational Value to the Cotton Exchange Inquisition

Members of New York Institution Reveal Causes for Disparity Between Prices of Spot and Futures for Benefit of Public and Growers

The investigation of the New York Cotton Exchange last week marked a step toward realism. It helped to destroy much of the mystic atmosphere and inscrutability that in the popular mind are associated with the marketing in the Southern staple. At least, it did so potentially, for the record of the hearing will in time be published so that all who read may know. The inquiry led to a restatement of the purposes of the mysterious future exchanges for the benefit of folk who cannot see any more in cotton than something with which to stuff mattresses and make cloth—and particularly for the benefit of the cotton growers.

For the first time in a decade, the members of the exchange were called upon to reveal the inner secrets of their business operations and to let the uninitiated know what the cotton exchange was all about. When the announcement was first made, in May, that government agents at the request of a Southern Senator—and many other persons—were going to hold hearings at the Stock Exchange to learn why prices were behaving in the way they then were, the local brokers perhaps did not receive the news with unmingled emotions. But when it was all said and done on Wednesday night of last week, and Charles J. Brand, chief of the Bureau of Markets of the Department of Agriculture, and his assistants had queried them on practically all of their wealth-getting activities, the brokers agreed that the investigation would be beneficial to the cotton trade in general and the exchange in particular. The inquiry resulted in the accumulation of knowledge, and, though a little knowledge may be a dangerous thing, volumes of it, such as were recorded in two busy days, may help to make even Southern cotton producers and Northern cotton brokers more compatible and to find a modus vivendi.

Educational Value To the Inquiry

Journalistic cotton experts and other reporters who wrote daily accounts of the hearings laid emphasis on the technical causes of the disparity between the prices of spot cotton and the prices of futures on cotton exchanges, but lost sight of the great educational significance of the inquiry.

Think what it would be worth for that part of young America that has aspirations toward success in the world of cotton to have at its service for two full days a score or more of the best informed cotton men in the country! Think of what it would mean to the youthful and ambitious to be able to ask these generals of the cotton trade any questions whatsoever pertaining to cotton, foolish or otherwise, which happened to come in to their minds! Such a concentrated method would have the traditional plan of starting at the bottom as an assistant office boy and learning the game yard by yard beat a thousand ways. The investigators of the Bureau of Markets had their opportunity, and the results of their queries will soon be available for all who desire to profit by them.

The meaning of spots, future, middling uplands, even running middling, the cotton clearing house, the technique of market movements, the reason why cotton exchanges seem to be exclusive, the cost and qualifications for membership—these and one thousand other things that the amateur who is interested in cotton would like to know were exhaustively covered at the hearings whose purpose, as announced at the beginning by Mr. Brand, was to develop a fabric of fact.

Now, of course, those familiar with the politics and sociology of cotton know full well that the Secretary of Agriculture did not order the investigation of futures exchanges primarily to facilitate the upward march of the type of youth who hopes to do for cotton what John D. Rockefeller did for oil. Murmurs that developed into impassioned protests on the part of Southern growers and editors led to the hearings. When the break in cotton prices followed the spectacular upward movement emotional devotees of the cotton industry below the Mason and Dixon line expressed their conviction that gambling in the New York Cotton Exchange was arbitrarily depriving the cotton growers of rightful profits. Though less intensive and in a quieter volume, a wail arose among a few New England millers to the effect that the cotton speculators were keeping prices too high.

What Cotton Growers Wish to Know

Specifically, the cotton growers wanted to know why there was a disparity between the cotton prices determined in the Southern spot markets and the price for contracts determined in the future exchanges. They wanted to know why futures were selling more than 5 cents a pound cheaper than spot cotton, and they wanted to know mighty badly.

Besides endeavoring to show the part they played in the general economic system, the members of the local exchange tried to give a specific diagnosis of the cause of the disparity. Their explanation was:

(1) In spot cotton only even running middling can be delivered unless otherwise specified (even running middling is good white cotton). But that in satisfaction of future contracts twenty-one grades of cotton, some better and some worse than even running middling, are deliverable. And that the government, which now dominates the cotton market, discouraged, if it did not actually forbid, the use of the relatively low grade cotton, for which the normal export demand has been killed as a result of the war, in the execution of its orders. As a result, it was said low grade cotton sold at a discount as compared with the better grade. And, since the lower grades were deliverable in future contracts, but not in spots, future contracts sold at a lower price.

(2) Liverpool interests had been heavy purchasers of spot cotton and heavy sellers of futures, thus appreciating the market value of spots and depressing that of futures. They did this, it was said, to hedge against the possibility of being unable to have the cotton which they bought at spot shipped to them because of the lack of tonnage.

Though these two were said to be the main causes of the disparity, many other factors were enumerated, but they are highly technical and are of lesser importance.

Plan for Removing The Disparity

Members of the exchange, a Southern shipper and a Northern spinner who were present outlined a programme for removing this disparity, which at the present moment is relatively slight, because the approaching crop, with its large supply of good cotton, has tended to remove the premium, for the time being at least, on the better grades.

The brokers suggested that the situation be remedied not by destroying the New York market, which they said served as a hedge for the spinners and shippers against future price changes, but by building it up. They advised that the cotton trade could be stabilized if transportation facilities for shipping cotton to New York were improved and storage warehouses here extended and provisions for rebilling made. The first of these measures, they said, would be to make New York a spot market of greater importance, which would always have a large reserve supply of cotton, which would enable this city to serve American spinners in the same manner that Liverpool has served English spinners.

The Bureau of Market investigators accepted the suggestions in excellent spirit, and the whole manner in which they conducted the hearings was intelligent and commendable. They treated the members of the exchange with every courtesy and consideration, and at the same time neglected to ask no question, no matter how embarrassing, which they believed essential for the solution of the present war-time tangles in the cotton industry in the interest of the general public, whom they have been chosen to serve.

They have now heard the Northern side of the story, both from the brokers and the spinners. Next they present should be South, where cotton can be expected in three dimensions. They are likely to hear some harsh words against the brokers whom they queried in New York, but if they give their new sources of information the privilege of consulting "the fabric of fact" which already has been spun there may result in clearer thinking about the cotton industry all around, particularly if the record of the hearings in the South in turn become available to the Northern interests in the same way.

Cotton Mills Ready For More Business

But Jobbers and Retailers Still Disposed to Await Price Fixing

Additional differentials named on cotton goods and the naming of cotton yarn prices by the Price Fixing Board were the chief features of the development of price fixing plans in the cotton goods trade last week.

Trading is becoming steadier and mills are now beginning to accept more business for future delivery. The jobbers and retailers are still holding off, as they are afraid that any prices yet to be changed to harmonize with the yarn set upon merchandise as it leaves the mills. The new prices now announced do not give promise of a very drastic reduction, but they are enough to encourage full production on the part of the mills.

There has been a distinct increase in the inquiry from exporters. It is difficult to see how foreign trade can be increased materially owing to the demand from home markets and the government demand for cloths for war purposes. Deliveries on old orders continue active in home markets, but there is a noticeable change in the character of the demand, buyers being disposed to purchase for actual requirements and not in anticipation of further advances. Mills are seeking to maintain a capacity output, due to labor shortage. All dividend payments indicate great past prosperity.

Prices quoted are as follows: Print cloths, 28-inch, 64x64, 11¼c; 64x60, 11¼c; 38½-inch, 64x64, 16¼c; brown sheetings, Southern standards, 20½c; tickings, 8 oz., 42½c; denims, 2.20s, Southern indigo, 37½c; staple ginghams, 22c; prints, 22c; dress ginghams, 22c and 24c.

Adapted to Beet Growing

Austria is giving more attention to the production of beet sugar, owing to the world-wide scarcity of that commodity, and the recent success of the plant at Maffra, which is the only one in the country, another at Warrnambool, Victoria, and one at the western part of Victoria where the land is especially adapted to raising the sugar beet.